



## **SCREENING CHAPTER 20 ENTERPRISE AND INDUSTRIAL POLICIES**

### **AGENDA ITEM II: COMPETITIVENESS**

**Country Session: The Republic of TURKEY  
4-5 May 2006**

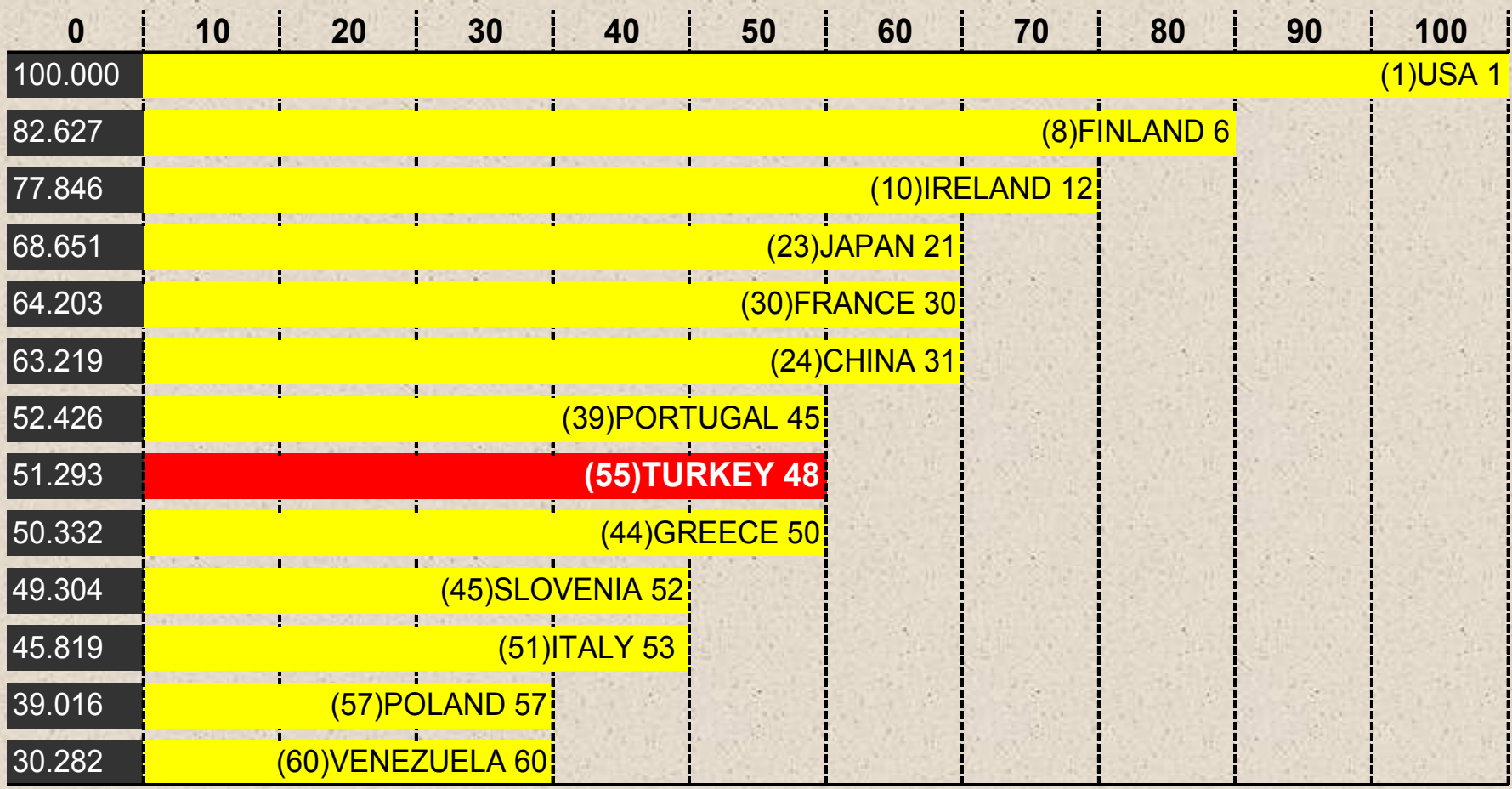


## CONTENT

- Overview
- Basic Policy Documents
- Objective of Competitiveness Policy
- Priorities in 2006 Annual Programme
- Institutions Involved
- Implementation Instruments



## THE WORLD COMPETITIVENESS SCOREBOARD 2005



(2004 rankings are in brackets)

Source: IMD World Competitiveness Yearbook



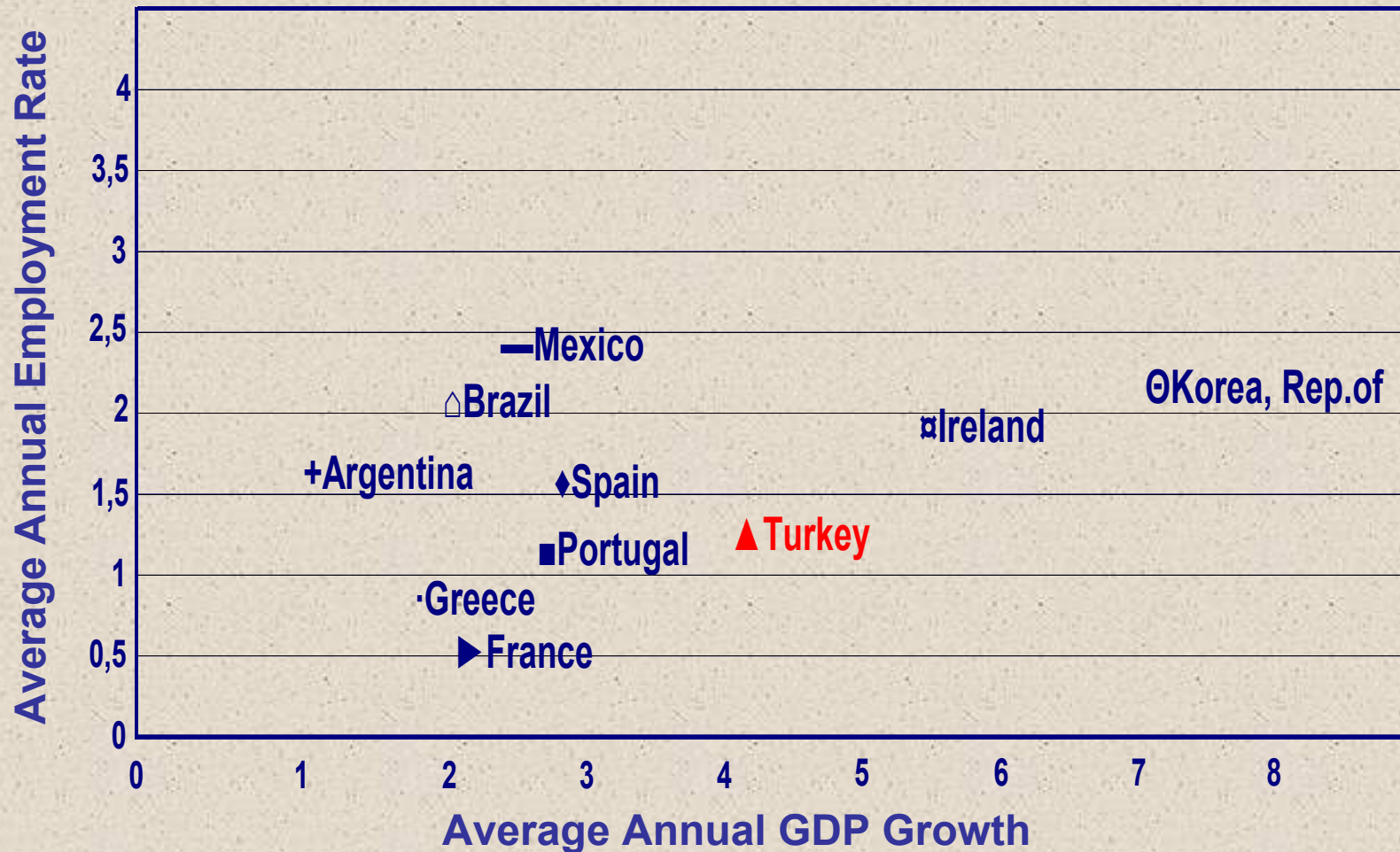
## TURKEY'S COMPETITIVENESS RANKING AMONG COUNTRIES

Indicator	2002	2003	2004	2005
<b>Number of Countries</b>	<b>80</b>	<b>102</b>	<b>104</b>	<b>117</b>
<b>Growth Competitiveness Index (GCI)</b>	<b>69</b>	<b>65</b>	<b>66</b>	<b>66</b>
<b>Technology Index</b>	<b>54</b>	<b>54</b>	<b>52</b>	<b>53</b>
<b>Business Competitiveness Index (BCI)</b>	<b>54</b>	<b>52</b>	<b>52</b>	<b>51</b>
<b>Company Operations and Strategy</b>	<b>56</b>	<b>51</b>	<b>44</b>	<b>38</b>
<b>Quality of National Business Environment</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>51</b>

Source: World Economic Forum, 2002-2003, 2003-2004, 2004-2005, 2005-2006 Reports



## GDP and Employment Growth (1981-2003)



Source: OECD



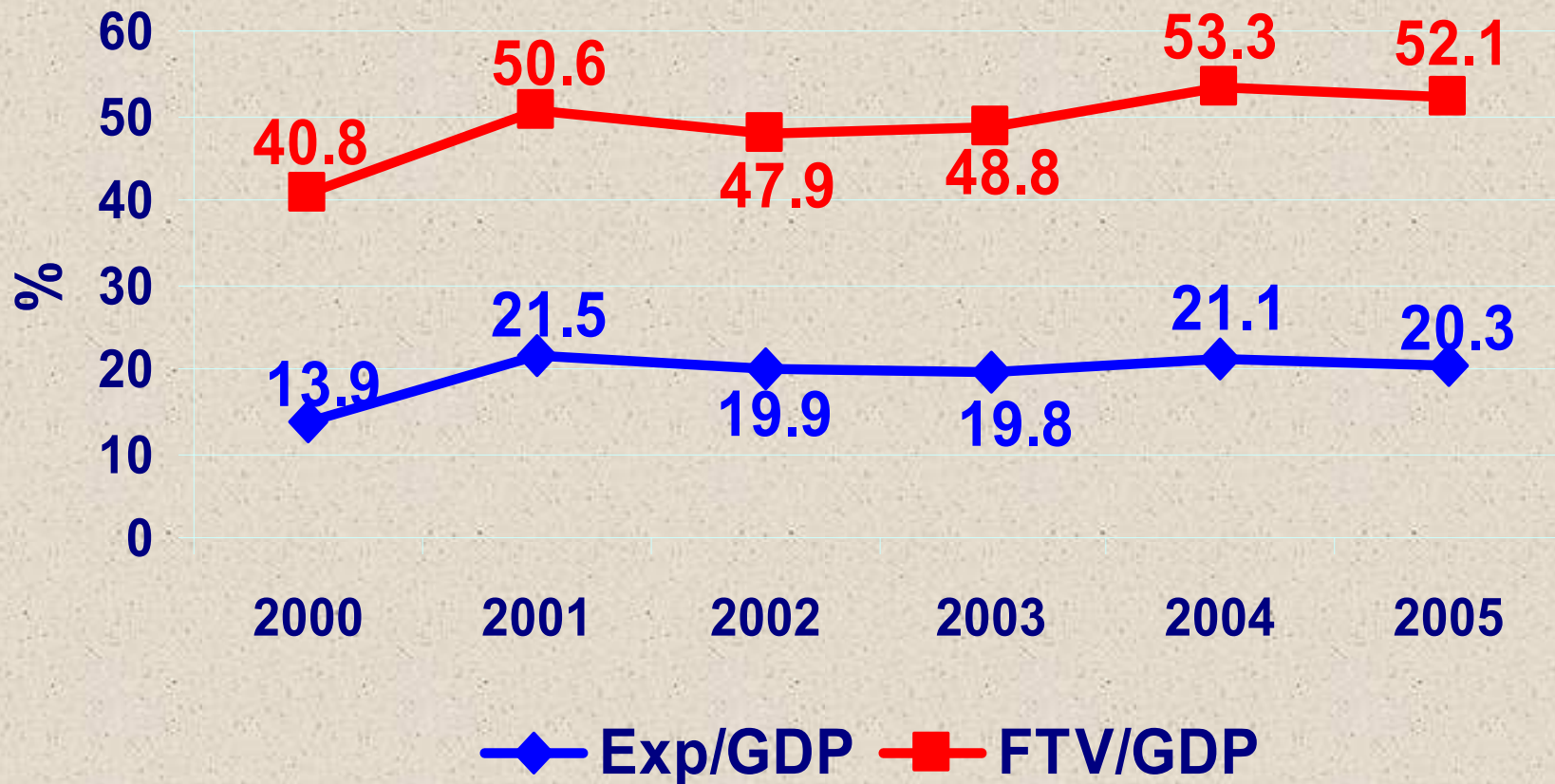
## FOREIGN TRADE VOLUME AND EXPORT



Source: UoFT



## FOREIGN TRADE DEVELOPMENTS



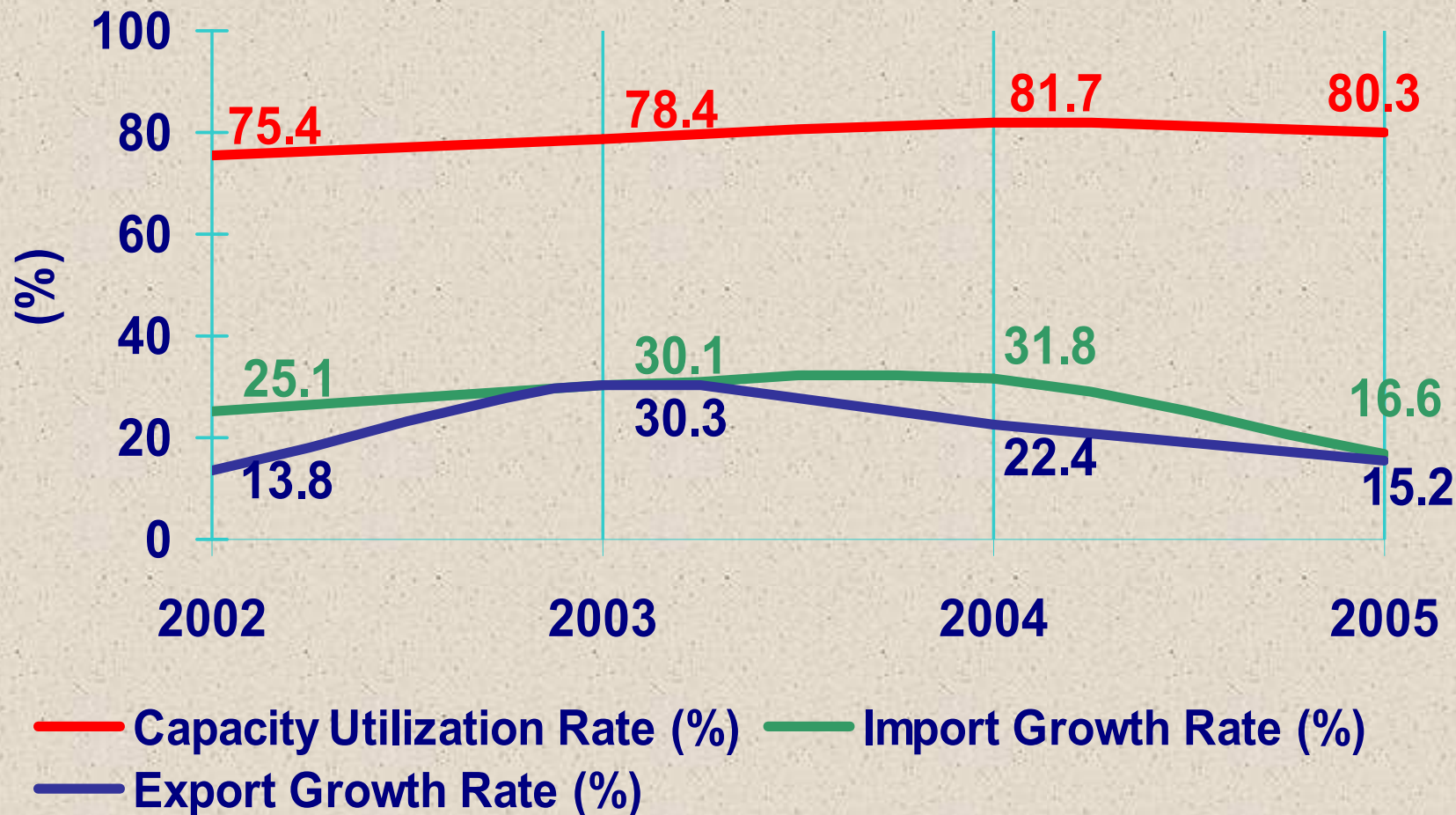
Source: UoFT

4-5 May 2006

The Republic of TURKEY



## MAIN INDICATORS OF MANUFACTURING INDUSTRY



Source: TURKSTAT





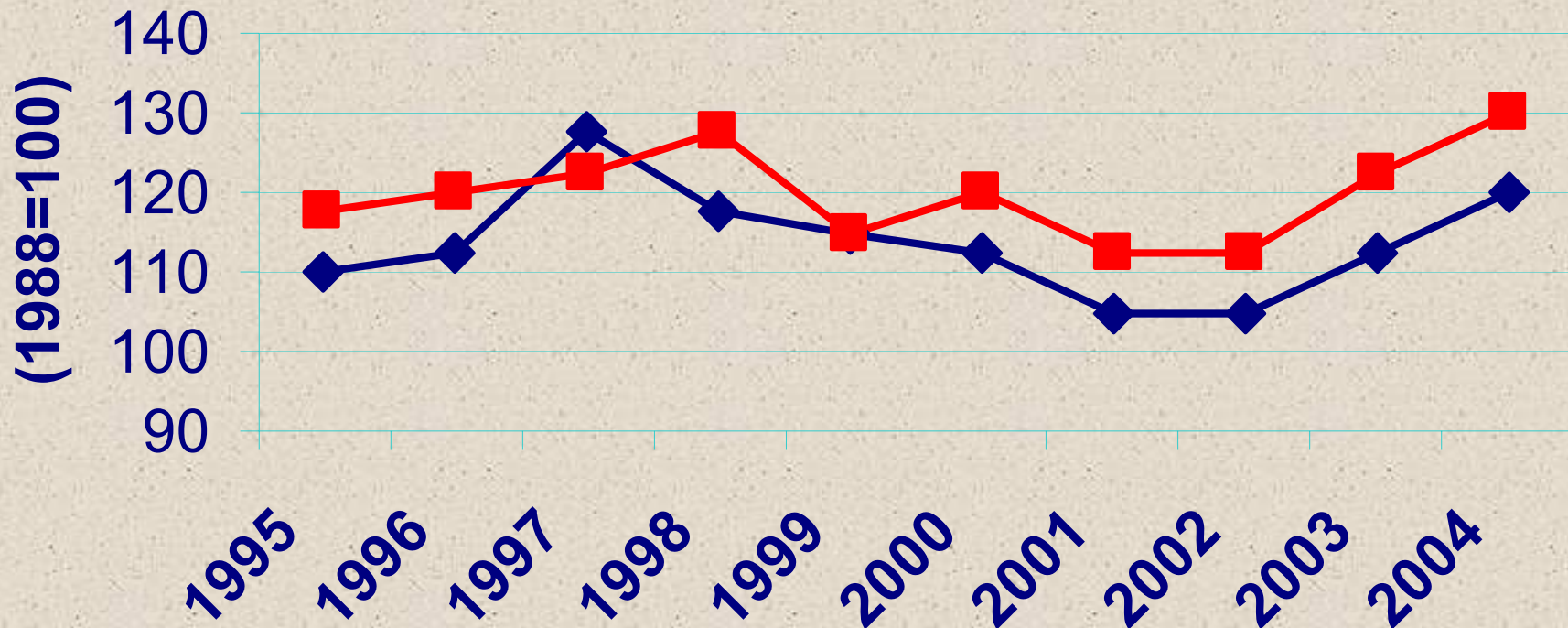
## PERCENTAGE RATES OF CAPACITY UTILISATION IN THE MANUFACTURING INDUSTRY

ISIC, Rev.3	%		
	2002	2004	2005
<b>Total</b>	<b>78.4</b>	<b>81.7</b>	<b>80.3</b>
Manufacture of food products and beverages	71.9	71.4	71.0
Manufacture of chemical products	79.1	80.7	75.1
Manufacture of rubber and plastic products	82.2	84.3	80.9
Manufacture of other non-metallic mineral products	78.4	81.8	82.3
Manufacture of main metals	83.7	83.4	82.2
Manufacture of machinery and equipment n.e.c.	81.3	85.6	75.9
Manufacture of office, accounting and computing machinery	74.8	76.2	88.5
Manufacture of electrical machinery and apparatus n.e.c.	72.7	75.6	76.5
Manufacture of radio, television and communication equipment and apparatus	89.8	91.5	83.6
Manufacture of medical, precision and optical instrument, watches and clocks	69.0	73.4	78.9
Manufacture of motor vehicles, trailers and semi-trailers	63.8	79.0	83.6
Manufacture of other transport equipment	60.9	69.2	78.6

Source: TURKSTAT



# LABOUR PRODUCTIVITY INDEX IN INDUSTRY



◆ Per Hour Productivity ■ Per Worker Productivity

Source: TURKSAT, OECD



## LABOR COSTS AND COMPETITIVENESS

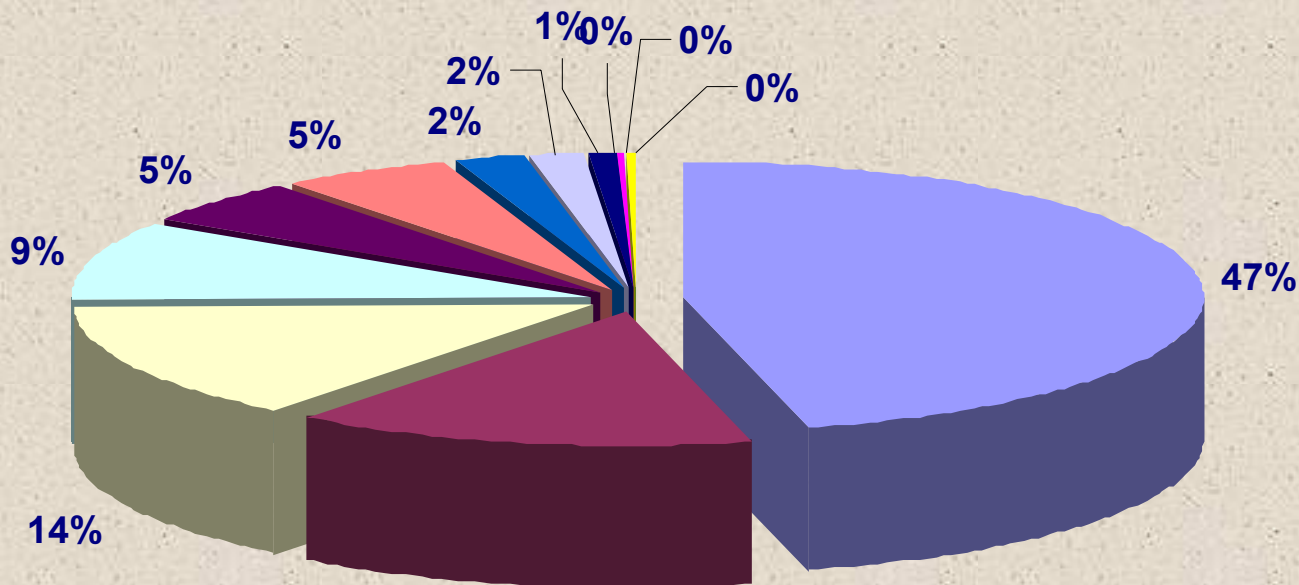
(per employee, in current US \$)

	Value added per employee <sup>1</sup>		Compensation per employee		Unit Labour Cost					
					Total Economy			Manufacturing		
	1995	2004	1995	2004	1995	2004	% ch. <sup>2</sup>	1995	2004	% ch.
Greece	28.436	39.550	9.924	14.260	0.35	0.36	0.4	0.50	0.44	- 1.6
Hungary	10.824	18.389	5.787	9.713	0.53	0.53	n.a	0.59	0.54	- 1.3
Korea Rep.of	22.857	24.275	11.887	12.138	0.52	0.50	- 0.5	0.55	0.49	- 1.4
Mexico	8.366	14.754	2.700	5.098	0.32	0.35	1.1	0.27	0.31	1.7
Poland	7.779	11.167	3.753	5.574	0.48	0.50	0.6	0.54	0.61	1.8
Portugal	21.892	26.505	11.414	14.832	0.52	0.56	0.9	0.59	0.65	1.2
Spain	41.529	47.162	21.484	25.153	0.52	0.53	0.2	0.62	0.68	1.2
<b>Turkey</b>	<b>3.184</b>	<b>14.239</b>	<b>683</b>	<b>3.654</b>	<b>0.21</b>	<b>0.26</b>	<b>2.4</b>	<b>0.21</b>	<b>0.27</b>	<b>2.8</b>

<sup>1</sup> Value added at basic prices ; <sup>2</sup> Compound average annual growth



## BREAKDOWN OF ENTREPRENEURS BY SECTORS (2002)



Wholesale and retail trade (47 %)

Transport, storage and communications (14 %)

Private households with employed persons (5 %)

Construction

Financial intermediation

Mining and quarrying

Manufacturing (15 %)

Hotels and restaurants (9 %)

Real estate, renting and business activities

Health and social work

Education

Electricity, gas and water supply

**TOTAL NUMBER OF ENTREPRENEURS: 1.878.300**

Source: TURKSTAT



# THE NUMBER OF COMPANIES WITH FOREIGN CAPITAL (1954-2005)

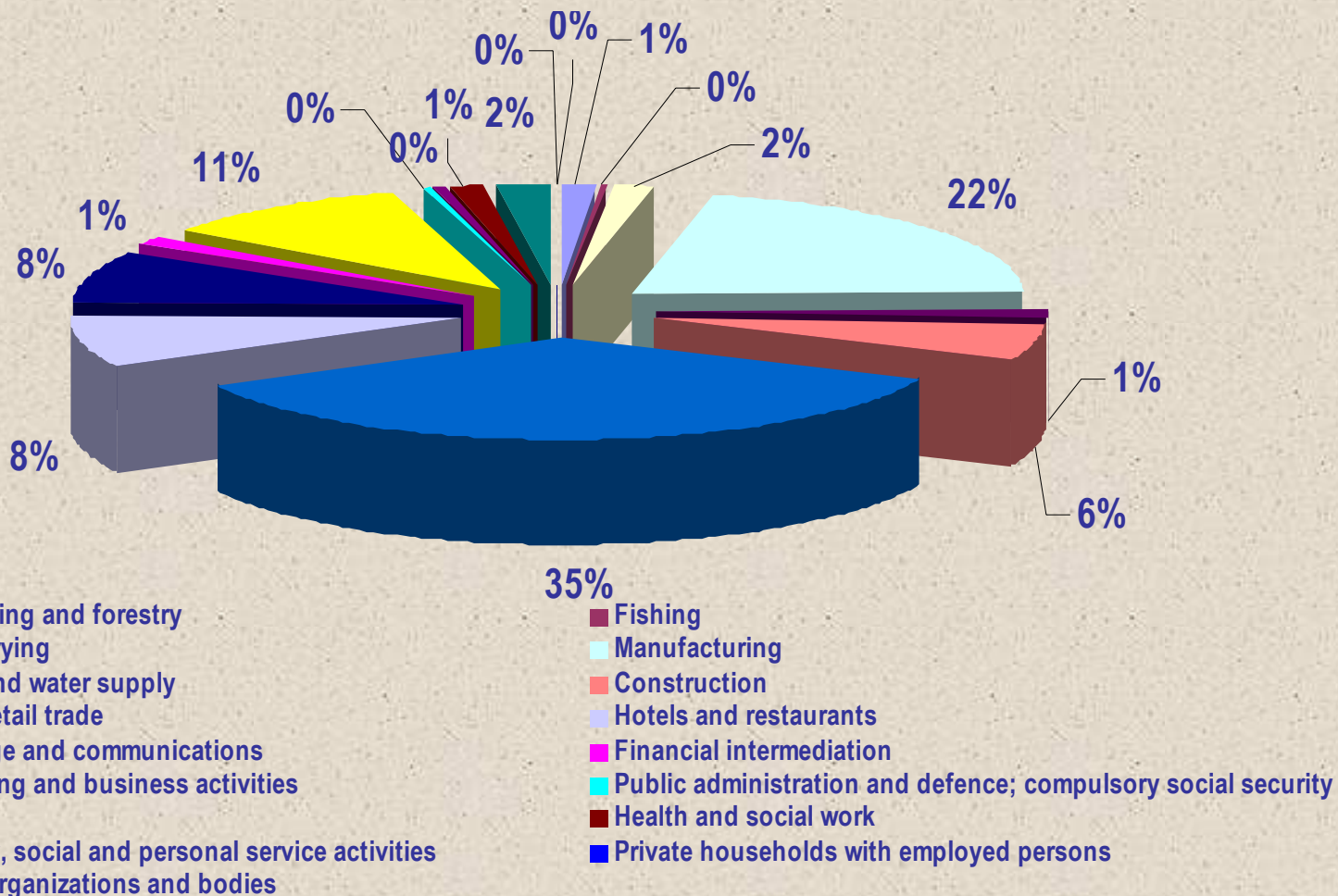


Source:UoT

\* Provisional



### BREAKDOWN OF COMPANIES WITH FOREIGN CAPITAL BY SECTOR (2005)



Source: UoT



## Patent Applications, Granted Patents, Utility Model Applications, Granted Utility Models

	2004				2005			
	National	PCT	EPC	Total	National	PCT	EPC	Total
Patent Applications	703	216	1344	2263	994	166	2317	3477
Granted Patents	278	702	957	1937	275	553	2025	2853
Utility Model Applications	1494	2	—	1496	1903	—	—	1903
Granted Utility Models	687	—	—	687	977	1	—	978

Source: TPI

PCT: Patent Cooperation Treaty ; EPC: European Patent Convention



## MAIN ECONOMIC INDICATORS

	2005 <sup>1</sup>	2006 <sup>2</sup>	2007 <sup>2</sup>	2008 <sup>2</sup>
GDP Growth (%)	7.4	5.0	5.0	5.0
GDP (Billion Euro)	287,3	313,1	321,7	346,2
GDP (Income Per Capita € Current Prices)	3,985	5,235	5,289	5,621
GDP (Income Per Capita) (€ PPP)	6,743	7,390	7,767	8,302
Population (1000)	72,844	73,905	74,944	75,961
Labour Force Participation (%)	48.3	49.0	48.7	48.7
Employment (1000)	22,046	22,894	23,131	23,590
Unemployment (%)	10.3	9.7	9.8	9.6
Consumer Price Index (%)	7.6	5.0	4.0	4.0

Source: <sup>1</sup>TURKSTAT <sup>2</sup>Medium Term Programme (2006-2008)



## POLICY DOCUMENTS

- Long-Term Strategy (2001-2023) and 8<sup>th</sup> Five Year Development Plan (2001-2005)
- Medium-Term Programme (2006-2008)
- 2006-Annual Programme
  
- Preliminary National Development Plan (2004-2006)
- Industry Policy for Turkey (Towards EU Membership)
- SME Strategy and Action Plan
- Export Strategy Plan (2004-2006)
  
- Ninth Development Plan Strategy (2007-2013)- Under Preparation
- Strategic Coherence Framework- Under Preparation
- Information Society Strategy - Under Preparation

## **LONG-TERM STRATEGY (2001-2023):**

- It is aimed that Turkey will increase its impact as a regional actor in the 2010s.
- Become a global actor in the 2020s as a result of its geo-strategic position, cultural heritage and the economic and social developments.



## 8<sup>th</sup> FIVE YEAR DEVELOPMENT PLAN (2001-2005)

- Through the improvement of the educational system, qualified labour power necessary for economic development shall be met and competitiveness shall be acquired.
- Arrangements shall continue for ensuring concentration of the state on its main functions and withdrawal from the field of production through privatisation.
- Necessary measures shall be taken to meet energy demand at a low cost in a reliable and sustainable manner.



## 8<sup>th</sup> FIVE YEAR DEVELOPMENT PLAN (2001-2005) (CONT'D)

- Turkey shall strengthen its multilateral and bilateral economic relations in order to increase its global and regional impact.
- To expand the use of knowledge, necessary legal and institutional arrangements shall be made and information and communication technology infrastructure shall be developed.



## 8<sup>th</sup> FIVE YEAR DEVELOPMENT PLAN (2001-2005) (CONT'D)

Industrialisation policy aims:

- Flexible structure,
- Emphasis on R&D,
- Meeting the environmental norms,
- Respecting consumer health and preferences,
- Activating local resources,
- Utilising qualified labour force,
- Implementing contemporary management and production methods

To take advantage of globalisation through creating original designs and create trade marks, and shifting to knowledge -and technology-intensive fields.



## MEDIUM-TERM PROGRAMME (2006-2008)

Objective related with competitiveness is,

- To ensure that enterprises possess high technological capability and qualified labour force, adaptable to the changing conditions and are competitive in domestic and global markets.



## ANNUAL PROGRAMME 2006

Priorities related with competitiveness are,

- Entrepreneurship, quality, productivity, innovation and effective utilisation of technology by enterprises will be supported, particularly for SMEs.
- Financial instruments will be diversified to enable the enterprises and entrepreneurs to have access to funds at favourable conditions.



## ANNUAL PROGRAMME 2006 (CONT'D)

- Physical, technological and information infrastructure, serving the needs of enterprises, will be improved,
- Clustering and network formation among enterprises will be supported.
- Efforts to improve the professional and technical skills of human resources in enterprises will be supported.





## ANNUAL PROGRAMME 2006 (CONT'D)

- Input costs will be reduced.
- Taxes and social security premium costs on employment will be reduced.
- Other liabilities raising labour costs will be reviewed.
- The impact of new regulations on the competitiveness of enterprises and sectors will be taken into consideration at the preparatory phase



## ANNUAL PROGRAMME 2006 (CONT'D)

- Efforts aiming to reduce red-tape and accelerate administrative procedures with a view to improve business and investment environment will continue.
- An efficient public support system with regional and horizontal objectives in line with the EU “*acquis*” will be established.

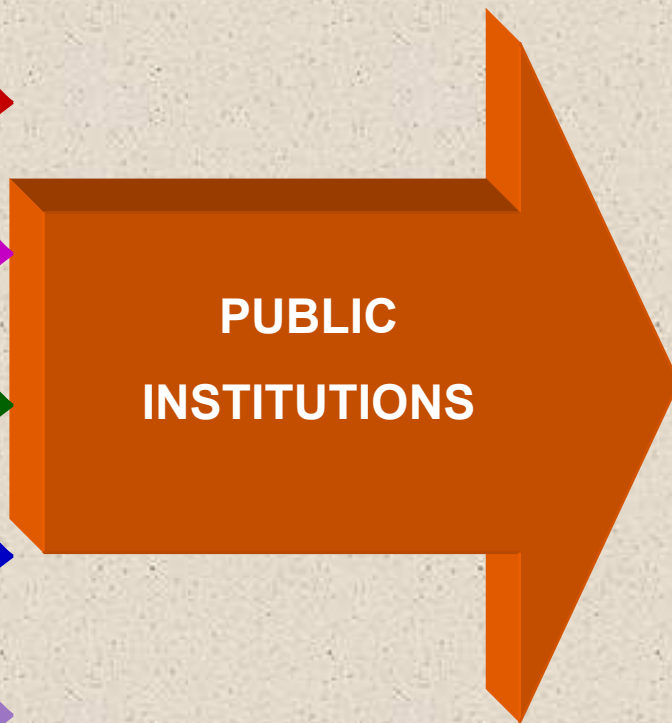
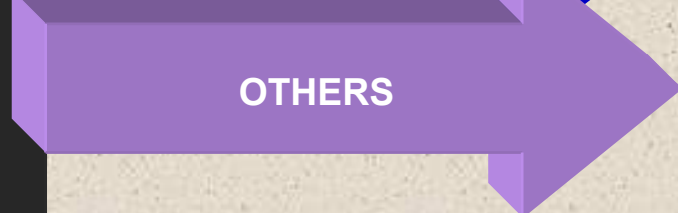
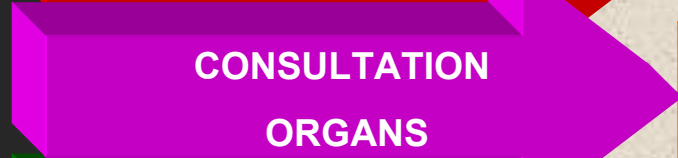


## ANNUAL PROGRAMME 2006 (CONT'D)

- Enterprises will be supported to adopt the principles of good governance and institutionalisation.
- Creation of national and international trademarks will be supported.
- The certification system and its infrastructure together with market surveillance will be improved in line with EU “*acquis*”



## INSTITUTIONS INVOLVED





## IMPLEMENTATION INSTRUMENTS - INFRASTRUCTURE

	Functions of the Zones	Number of Completed Zones	Number of Enterprises in the Zones	Employment
<b>Organised Industrial Zones</b>	Providing common infrastructure facilities, supporting urbanisation and environmental protection	<b>87</b>	<b>30,750</b>	<b>579,600</b>
<b>Small Industrial Estates</b>	Providing sound and healthy working conditions for the crafts and small enterprises.	<b>393</b>	<b>87,345</b>	<b>520,000</b>
<b>Technology Development Zones</b>	Supporting technology-based enterprises, developing cooperation between universities and the industry, and facilitating spread of technology	<b>20</b>	<b>463</b>	5266 out of 6943 are R&D personnel
<b>Free Zones<sup>1</sup></b>	Supporting enterprises operating on export-oriented basis	<b>23</b>	<b>3,929</b>	<b>33,795</b>
<b>Industrial Zones</b>	Promoting technology transfer, foreign direct investment and employment, and reducing red-tape in investment procedures	-	-	-

Source: MoIT 1: UoFT



## IMPLEMENTATION INSTRUMENTS - INFRASTRUCTURE

### Additional Information

#### Telecommunication

Controlling stake of 55 % of Turk Telekom was sold off through block sale in 2005. The preparatory work as to the Initial Public Offering (IPO) of the remaining public shares (45 %) in Turk Telekom has just commenced. Furthermore, as of April 2006, 24 companies have been granted licenses enabling them to provide services in the Telecommunications sector.

#### Transportation

With regard to transport networks, Transport Infrastructure Needs Assessment (TINA) Study has been launched in December 2005. TINA Study aims to initiate the development of a multi-modal transport network within the Republic of Turkey, extending the European Union's trans-European Transport Network (TEN-T) into the territory of Turkey in line with the TEN-T Guidelines. This study will be finalized in 2006. Turkey has also participated in the 'High Level Group' on the extension of the major trans-European transport axes to neighbouring countries.

#### Energy

Turkish energy market laws and implementing regulations are largely in line with the EU *acquis*. The privatisation process in the energy sector as a whole is ongoing. The privatisation of distribution regions (TEDAS) will be followed by the privatisation of power generation assets (EUAS).



## FINANCIAL INSTRUMENTS

Instruments	Related Institutions	Additional Information
Public Support System	Ministry of Finance, Ministry of Industry and Trade, Undersecretariat of Treasury, Undersecretariat for Foreign Trade, TURK EXIMBANK, Halkbank, Turkish Development Bank, TUBITAK, KOSGEB, etc.	Support for investments, regional development, SMEs, exports.  3,390 incentive certificates were given in 2000-2005 period. The share of manufacturing industry was 61%.  Supports for R&D, employment, environmental protection, brand creation, market research, training, participation in international fairs, promotion of Turkish trademarks and operating stores abroad.
Credit Guarantee	Credit Guarantee Fund Inc.	Providing guarantees to the credits used by SMEs.



## FINANCIAL INSTRUMENTS

<b>Instruments</b>	<b>Related Institutions</b>	<b>Additional Information</b>
<b>Venture Capital Investment Trusts (VCIT)</b>	<b>Capital Market Board of Turkey, ISRISK (private), VAKIFRISK (private), KOBİ A.S VCIT.</b>	<b>2 Venture Capital Investment Trusts are operational.</b>
<b>Growing Enterprises Market</b>	<b>Capital Market Board of Turkey</b>	<b>Growing Enterprises Market A.S. was established in December 2005. The corporation has to apply for operating permission within one year to the Capital Market Board.</b>
<b>Cooperatives</b>	<b>The Credit Guarantee Cooperatives, Craft Cooperatives, Small Industrial Estates Construction Cooperatives.</b>	<b>Cooperatives assist their members to obtain credit from Halkbank.</b>
<b>Leasing</b>	<b>Private Banks, Leasing Companies</b>	<b>Renting of transportation vehicles, machinery and equipment are the mainly preferred ones in transactions.</b>



## NON-FINANCIAL INSTRUMENTS

Instruments	Related Institutions	Additional Information
<b>Training and consultation services</b>	<b>Ministry of National Education, Ministry of Labour and Social Security, Undersecretariat for Foreign Trade, KOSGEB, National Productivity Centre.</b>	<b>Vocational training, Training and advisory services for improving productivity and management capacity of firms, Market research, Certification process, CE marking, Quality assurance system, Brand creation, Entrepreneurship, Information technologies, etc.</b>
<b>Certification and standardisation services</b>	<b>Turkish Standards Institution, TURKAK, Private Companies</b>	<b>Company and product based certification, Personnel certification, Metrology and calibration operations.</b>

## NON-FINANCIAL INSTRUMENTS

Instruments	Related Institutions	Additional Information
Statistical Information Collection and Sharing	TURKSTAT	Statistical information on economy, industry, SMEs, sectors etc. is collected and published.
Intellectual Property Rights Protection	Turkish Patent Institute	Patents, Utility Model Certificates, Industrial Designs, Geographical signs and trade marks.
R&D and Innovation Support	TUBITAK, KOSGEB, Technology Development Foundation of Turkey (TTGV).	Following up technological developments, Conducting seminars and scientific researches, Trainings, Consultancy services on software, product development and innovation, etc.



## NON-FINANCIAL INSTRUMENTS

Instruments	Related Institutions	Additional Information
Foreign Direct Investment (FDI)	Undersecretariat of Treasury	The new FDI Law was enacted and published on 17 June, 2003. Net FDI inflow to Turkey increased by 60% in 2005.
Protection of Competition	Competition Authority	The function of the Authority is enforcing the Turkish Competition Law.
Investment Advisory Council for Turkey	Undersecretariat of Treasury	Gathering high level representatives of international investors and national authorities to provide recommendations on improving the investment environment.
Feedbacks and Services of NGOs	TOBB, TUSIAD, Associations, TTGV, Foreign Economic Relations Board.	Trainings, Consultation services, Financial supports to SMEs and investors. Seminars, workshops, congress, research and reports.



## NON-FINANCIAL INSTRUMENTS

Instruments	Related Institutions	Additional Information
<b>Reform Programme for the improvement of the Investment Environment (YOIKK)</b>	<b>Public and private cooperation</b>	<ul style="list-style-type: none"><li>-Company establishment process was reduced to one day and necessary steps were reduced from 19 to 3.</li><li>- 'One Stop Shop' system was developed in February 2006 regarding investment permissions.</li><li>-By-law on Opening a Business Place and Work License reduced the required number of documents from 52 to 6 for licensing of sanitary business places and from 43 to 7 for non-sanitary ones.</li><li>-Ministry of Labour and Social Security alone was authorised to grant work permits for foreigners.</li></ul>
<b>Privatisation</b>	<b>Privatisation Administration</b>	<p>Total privatisation revenues significantly increased in 2005 reaching to EUR 10.5 billion.</p>

## MARKET LIBERALISATION

Turkey aims at further enhancing the functioning market economy through ensuring openness and competitiveness; upgrading productivity; strengthening the investment climate, attracting more FDI, encouraging private initiative and entrepreneurial skills, and employment creation.

- Major legislative changes in recent years include:

- ✓ Electricity Market Law,
- ✓ Natural Gas Market Law,
- ✓ Telecommunications Law,
- ✓ Sugar Law,
- ✓ Tobacco Law,
- ✓ Banking Law,
- ✓ Petroleum Market Law,
- ✓ Foreign Direct Investment Law,
- ✓ Company Law,
- ✓ Law concerning elimination of FDI restrictions in some sectors,
- ✓ Law regarding several amendments aiming at accelerating privatisation

## MARKET LIBERALISATION (Privatisation)

### STATE'S TOTAL WITHDRAWAL

Cement, Animal Feed, Milk - Dairy Products, Forestry Products, Ground Handling and Catering on Airports, Alcoholic Beverages, Petroleum Distribution, Agricultural Machinery, Cruise /Maritime Transportation, Crude-oil Refining and Shipment, Iron-steel, Textile/Ready-to-wear, Aluminium Production, Silver Mine Works, Electrometallurgy, Chromium

### MAJORITY WITHDRAWAL

Telecommunications, Tourism, Paper and Pulp Industry, Insurance, Copper Works

### PARTIAL WITHDRAWAL

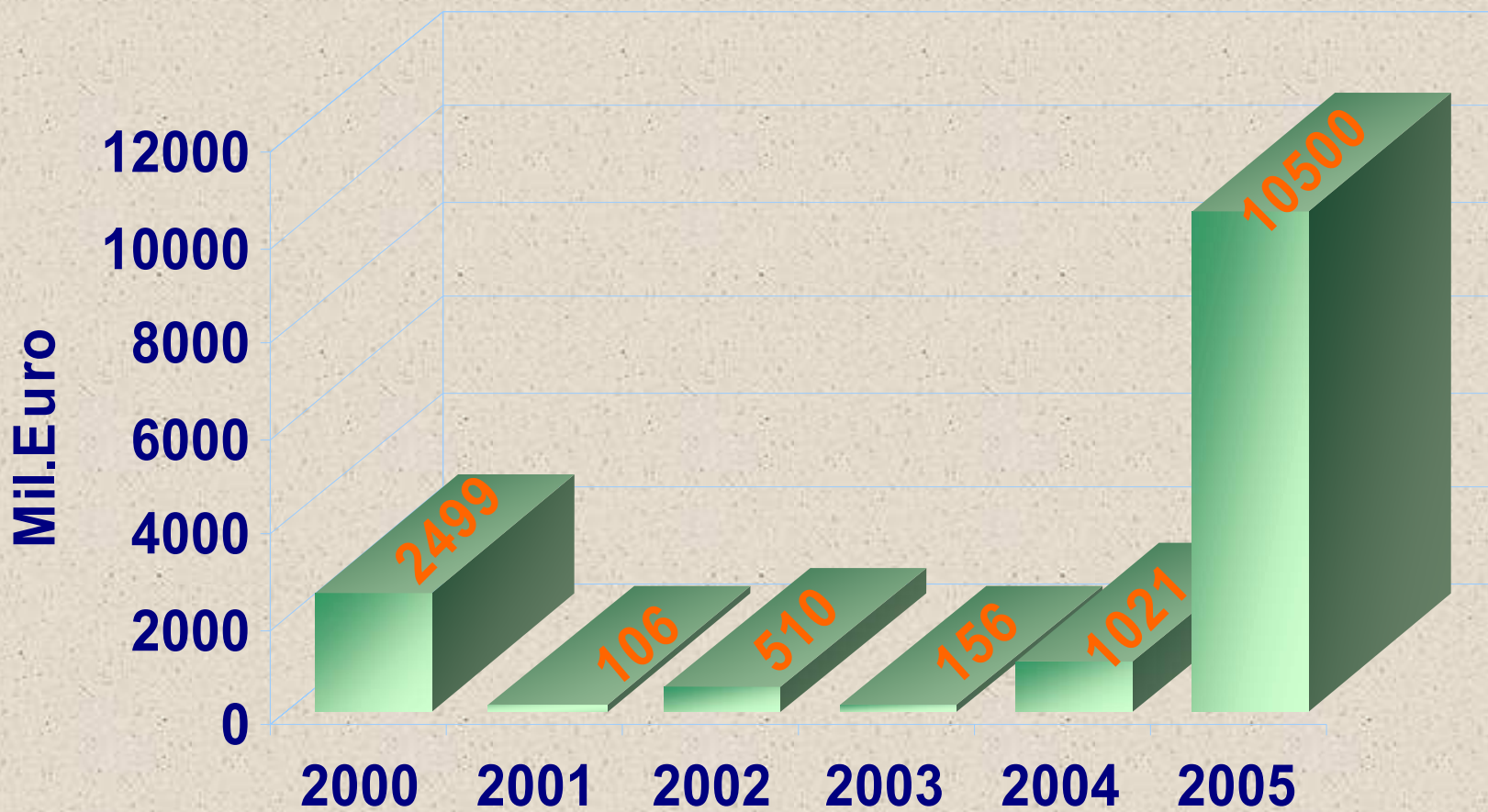
Operating Seaports/Airports, Meat/Poultry and Fish Products, Natural Gas Distribution, Sugar Processing

### DOMINANT / COMMANDING POSITION

Banking, Electricity (Generation, Transmission, Retail trading and Distribution), Petrochemicals, Sugar Processing, Tobacco, Coal Mining, Civil Aviation, State Farms, Natural Gas Transmission and Distribution, Railways, Water Network, Sewerage, Defence, Upstream Activity in Petroleum Sector, Health, Education, Social Security



## PRIVATISATION REVENUES





## NON-FINANCIAL INSTRUMENTS

### e-Services for Business

#### Public Services

#### Application in Turkey

<b>1</b>	<b>Income taxes (Declaration, Notification of Assessment)</b>	e-Tax Return application (Notification, Accrual, Payment)
<b>2</b>	<b>Job search services by labour offices</b>	Access to information (Job notification is provided but no interactive services)
<b>3</b>	<b>Public procurement</b>	Publication of call for tenders
<b>4</b>	<b>Social contribution for employees</b>	e-Declaration (Sending Declaration, Collection Information, Debt, Accrual, Online Payment)
<b>5</b>	<b>Corporate tax (Declaration, Notification)</b>	e-Declaration (Notification, Accrual, Payment)



## NON-FINANCIAL INSTRUMENTS

### e-Services for Business (Cont'd)

Public Services		Application in Turkey
6	VAT (Declaration, Notification)	e-Declaration (Notification, Accrual, Payment)
7	Registration of a new company	-
8	Submission of data to statistical offices	-
9	Customs declarations	Notifications can be made via BILGE-EDI system except for the documents requested by other public sector bodies
10	Environment-related permits (including reporting)	Some required documents can be downloaded
11	Portal for Investment Advisory services	Invest in Turkey Portal (Investment advisory service for foreign investors). It will be available online soon.
12	SME portal	'KOBINET' by KOSGEB (Information services, advice and assistance services are provided for the business cooperation services of SMEs by intermediary organization, namely Information Providers)



**THANK YOU FOR YOUR ATTENTION**